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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 1908

01/24/2012 Authored by Franson

The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

relating to taxes; repealing the individual income and corporate franchise tax, petroleum and motor fuels taxes, gambling taxes, cigarette and tobacco taxes, solid waste management taxes, minerals occupation tax, and insurance taxes; and replacing the lost revenue with a comprehensive general sales tax; amending Minnesota Statutes 2010, sections 297A.62, subdivisions 1, 1a; 297A.66, subdivision 3; proposing coding for new law in Minnesota Statutes, chapter 297A; repealing Minnesota Statutes 2010, sections 297A.61, subdivisions 2, 4, 10, 12, 13, 16a, 16b, 16c, 17, 17a, 17b, 18, 30, 31, 32, 33, 34, 36, 37, 38, 46; 297A.62, subdivision 3; 297A.63, subdivision 2; 297A.64; 297A.65; 297A.67; 297A.68, subdivisions 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 19, 20, 22, 23, 24, 25, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41; 297A.69; 297A.70, subdivisions 4, 5, 7, 8, 9, 11, 12, 13, 14, 15, 16, 17; 297A.71, subdivisions 1, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 17, 18, 20, 22, 32, 34, 35, 38, 40, 41, 42; 297A.75, subdivisions 4, 5; 297A.87, subdivision 3; 297A.89, subdivision 1; Minnesota Statutes 2011 Supplement, sections 297A.61, subdivision 3; 297A.68, subdivisions 4, 42, 43; 297A.70, subdivisions 1, 2, 3, 6; 297A.71, subdivision 23; 297A.75, subdivisions 1, 2, 3; 297A.89, subdivision 2.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

ARTICLE 1

CONSTITUTIONAL AMENDMENT; PROHIBITING INCOME TAXES AND GROSS RECEIPTS TAXES AND REQUIRING A COMPREHENSIVE SALES TAX

Section 1. **CONSTITUTIONAL AMENDMENTS PROPOSED.**

An amendment to the Minnesota Constitution is proposed to the people. If the amendment is adopted, article X, section 3, will be repealed
a section shall be added to article X, to read:

Sec. 9. (a) For all tax years beginning on or after January 1, 2014, no tax shall be imposed upon any income derived from any source within this state, including corporate and personal income taxes, franchise taxes, or occupation taxes. Beginning on January

1, 2014, no tax shall be imposed on gross receipts or consumption other than a general comprehensive sales and use tax. All revenue lost as a result of the prohibition under this section must be replaced by expanding the base of the general sales and use tax in this state to all sales of taxable property and services, regardless of the location of the seller or method of transfer, and increasing the general sales and use tax rate to a rate necessary to replace the estimated revenues that, absent the prohibition, would have been collected in the first year of the prohibition. "Taxable property and services" means any tangible property, digital goods, or service, including leaseholds of any term or rents with respect to the property, consumed or used in this state.

(b) Taxable property and services excludes property or services:

(1) purchased as a component part or ingredient of taxable property or service to be sold at retail;

(2) purchased for a business purpose in a trade or business, including agriculture; and

(3) purchased for investment purposes. For purposes of this section, "purchased for a business purpose in a trade or business" means purchased by a person engaged in a trade or business and used in that trade or business for resale; to produce, provide, render, or sell taxable property or services; or in furtherance of other bona fide business purposes. For purposes of this section, "purchased for an investment purpose" means property purchased exclusively for purposes of appreciation or the production of income, and tuition and fees paid to an accredited institution of higher education for educational services. All sales tax exemptions in place as of the effective date of this section exempting purchases other than the purchases enumerated in this section are repealed.

(c) The Department of Revenue shall determine a method for providing a sales tax rebate for each duly registered qualified household of the state beginning January 1, 2014. The monthly amount of the rebate equals the product of (1) the combined sales tax rate established under this section and under article XI, section 15, and (2) 1/12 of the annual poverty guidelines updated periodically by the United States Department of Health and Human Services or its successor agency. For purposes of this section, "qualified family" means one or more relatives sharing a common residence. All relatives sharing a common residence are considered part of one qualified family.

article XI, section 15, will read:

Sec. 15. Beginning July 1, 2009, until June 30, 2034, the sales and use tax rate shall be increased by three-eighths of one percent on sales and uses taxable under the general state sales and use tax law. Receipts from the increase, plus penalties and interest and reduced by the share of the rebate under article X, section 9 due to the sales tax rate in this section, and by any refunds, are dedicated, for the benefit of Minnesotans, to the following funds:

33 percent of the receipts shall be deposited in the outdoor heritage fund and may be spent only to restore, protect, and enhance wetlands, prairies, forests, and habitat for fish, game, and wildlife; 33 percent of the receipts shall be deposited in the clean water fund and may be spent only to protect, enhance, and restore water quality in lakes, rivers, and streams and to protect groundwater from degradation, and at least five percent of the clean water fund must be spent only to protect drinking water sources; 14.25 percent of the receipts shall be deposited in the parks and trails fund and may be spent only to support parks and trails of regional or statewide significance; and 19.75 percent shall be deposited in the arts and cultural heritage fund and may be spent only for arts, arts education, and arts access and to preserve Minnesota's history and cultural heritage. An outdoor heritage fund; a parks and trails fund; a clean water fund and a sustainable drinking water account; and an arts and cultural heritage fund are created in the state treasury. The money dedicated under this section shall be appropriated by law. The dedicated money under this section must supplement traditional sources of funding for these purposes and may not be used as a substitute. Land acquired by fee with money deposited in the outdoor heritage fund under this section must be open to the public taking of fish and game during the open season unless otherwise provided by law. If the base of the sales and use tax is changed, the sales and use tax rate in this section may be proportionally adjusted by law to within one-thousandth of one percent in order to provide as close to the same amount of revenue as practicable for each fund as existed before the change to the sales and use tax. The sales and use tax rate in this section must be proportionally adjusted on January 1, 2014, to within .001 percent in order to provide as close to the same amount of revenue as practicable for each fund as existed before the change to the sales and use tax under article X, section 9.

Sec. 2. **SUBMISSION TO VOTERS.**

The proposed amendment must be submitted to the people at the 2012 general election. The question submitted must be:

"Shall the Minnesota Constitution be amended beginning January 1, 2014, to eliminate individual and corporate income taxes and state gross receipts and sales taxes, other than a fair tax which is a comprehensive sales and use tax imposed at a rate that would offset lost revenue from the eliminated taxes and would be included in the gross price on all new purchases of goods and services, including Internet sales and sales of digital products, except for property purchased for business or investment; and to provide

each qualified family with a sales tax rebate to ensure that no state sales tax is paid on purchases up to the federal poverty level?

Yes

No "

Sec. 3. EFFECTIVE DATE.

Sections 1 and 2 apply to taxes and tax years beginning on or after January 1, 2014.

ARTICLE 2

SALES TAX CONFORMING CHANGES

Section 1. [297A.611] ADDITIONAL FAIR TAX DEFINITIONS.

Subdivision 1. **Applicability.** When used in this chapter, the following words, terms, and phrases have the meanings given them in this section, unless the context clearly indicates a different meaning.

Subd. 2. **Fair tax.** "Fair tax" means the sales and use tax imposed under this chapter and incorporated into the gross sales price of all taxable property and services.

Subd. 3. **Basic interest rate.** "Basic interest rate" means:

(1) in the case of a debt instrument, investment, financing lease, or account with a term of not over three years, the applicable interest rate is a short-term rate based on the average market yield during any one month on outstanding marketable obligations of the United States with remaining periods of maturity of three years or fewer;

(2) in the case of a debt instrument, investment, financing lease, or account with a term of over three years but not over nine years, the applicable interest rate is a midterm rate based on the average market yield during any one month on outstanding marketable obligations of the United States with remaining periods to maturity of more than three years but not over nine years; or

(3) in the case of a debt instrument, investment, financing lease, or account with a term over nine years, the applicable interest rate is a long-term rate based on the average market yield during any one month on outstanding marketable obligations of the United States with remaining periods to maturity of over nine years.

Subd. 4. **Business purpose.** "Business purpose" means a purchase made by a person engaged in a trade or business and used in that trade or business for resale; to produce, provide, render, or sell taxable property or services; or in furtherance of other bona fide business purposes.

5.1 Subd. 5. **Business use conversion.** "Business use conversion" means the use
5.2 of taxable property or services upon which tax was imposed and actually paid that
5.3 commenced to be 95 percent or more used for business purposes.

5.4 Subd. 6. **Commissioner.** "Commissioner" means the commissioner of revenue.

5.5 Subd. 7. **Digital products.** (a) "Digital products" means all specified digital
5.6 products and all other digital products transferred electronically to the purchaser, including
5.7 a digital code or access to a digital code for receiving, accessing, or otherwise obtaining
5.8 the digital product.

5.9 (b) "Digital code" means a code that provides a purchaser with a right to obtain
5.10 one or more specified digital products or other digital products. A digital code may be
5.11 transferred electronically, such as through email, or it may be transferred on a tangible
5.12 medium such as a plastic card or paper invoice. A digital code is not a code that represents
5.13 stored monetary value that is deducted from a total as it is used by the purchaser, or a code
5.14 that represents a redeemable card, gift card, or gift card that entitles the holder to select a
5.15 digital product of an indicated cash value.

5.16 (c) "Specified digital product" means:

5.17 (1) digital audiovisual works that are a series of related images that, when shown in
5.18 succession, impart an impression of motion and accompanying sounds, if any;

5.19 (2) digital audio works that are works that result from the fixation of a series of
5.20 musical, spoken, or other sounds, including ringtones; and

5.21 (3) digital books that are works that are generally recognized in the ordinary and
5.22 usual sense as books.

5.23 (d) "Other digital products" means products other than specified digital products
5.24 that are transferred electronically to the purchaser and would otherwise be taxable if
5.25 delivered in a tangible form, including but not limited to art, greeting cards, and video
5.26 and electronic games.

5.27 (e) "Transferred electronically" means obtained by the purchaser by means other
5.28 than tangible storage media. It is not necessary that a copy of the product be physically
5.29 transferred to the purchaser. A product shall be considered delivered electronically to a
5.30 purchaser if the purchaser has access to the product.

5.31 Subd. 8. **Education and training costs.** "Education and training costs" includes
5.32 tuition for primary, secondary, or postsecondary education and job-related training
5.33 courses. Education and training does not include costs for room, board, sports activities,
5.34 recreational activities, hobbies, games, arts or crafts, or cultural activities.

5.35 Subd. 9. **Explicitly charged fees.** "Explicitly charged fees" means:

5.36 (1) brokerage fees;

6.1 (2) explicitly stated banking, loan origination, processing, documentation, credit
6.2 check fees, or other similar fees;

6.3 (3) safe deposit box fees;

6.4 (4) trustees' fees; and

6.5 (5) other financial services fees, including mutual fund management, sales, and
6.6 exit fees.

6.7 Subd. 10. **Family member.** "Family member" means any resident of this state
6.8 with a valid Social Security number who is:

6.9 (1) an individual;

6.10 (2) the individual's spouse;

6.11 (3) a lineal ancestor or descendant of the individual or the individual's spouse;

6.12 (4) a legally adopted child of the individual or the individual's spouse;

6.13 (5) a child under legal guardianship of the individual or of the individual's spouse; or

6.14 (6) a child living away from home. For purposes of this clause, "a child living away
6.15 from home" means any person who was a registered student during not fewer than five
6.16 months in a calendar year while living away from a common residence of a qualified
6.17 family but who receives over 50 percent of that person's support during a calendar year
6.18 from members of the qualified family. For purposes of this clause, a child living away
6.19 from home whose parents are divorced or legally separated is treated as part of the
6.20 qualified family of the custodial parent, and in cases of joint custody, the custodial parent
6.21 is the parent who has custody of the child for more than one-half of the time during a given
6.22 calendar year. A parent entitled to be treated as the custodial parent under this clause may
6.23 release the claim to the other parent if the release is in writing.

6.24 Subd. 11. **Financial intermediation services.** "Financial intermediation services"
6.25 means the sum of (1) explicitly charged fees for financial intermediation services, and (2)
6.26 implicitly charged fees for financial intermediation services.

6.27 Subd. 12. **Government enterprise.** "Government enterprise" means an entity
6.28 owned and operated by a federal, state, or local governmental unit or political subdivision
6.29 that receives gross payments from private persons, provided that in any quarter in the
6.30 calendar year it has revenues from selling taxable property or services that exceed \$2,500.

6.31 Subd. 13. **Gross imputed amount.** "Gross imputed amount" means:

6.32 (1) with respect to any underlying interest-bearing investment or account, the
6.33 product of:

6.34 (i) the excess of the basic interest rate over the rate paid on the investment; and

6.35 (ii) the amount of the investment or account; or

6.36 (2) with respect to any underlying interest-bearing debt, the product of:

7.1 (i) the excess of the rate paid on the debt over the basic interest rate; and

7.2 (ii) the amount of the debt.

7.3 Subd. 14. **Gross payment.** "Gross payment" means the total amount charged for
7.4 taxable property and services, including the taxes imposed under this chapter.

7.5 Subd. 15. **Implicitly charged fees.** "Implicitly charged fees" means the gross
7.6 imputed amount in relation to any underlying interest-bearing investment, account, or debt.

7.7 Subd. 16. **Intangible property.** "Intangible property" includes copyrights,
7.8 trademarks, patents, goodwill, financial instruments, securities, commercial paper, debts,
7.9 notes and bonds, and other property deemed intangible under state law. Intangible
7.10 property does not include tangible personal property or rents or a leasehold of any term
7.11 on the tangible personal property, real property or rents or leaseholds of any term on
7.12 the real property, or computer software.

7.13 Subd. 17. **Investment purpose.** "Investment purpose" means the purchase of
7.14 property exclusively for the purpose of appreciation or the production of income but not
7.15 entailing more than minor personal efforts.

7.16 Subd. 18. **Mixed-use property.** "Mixed-use property" means a taxable property or
7.17 service used for both taxable use or consumption and for a business purpose.

7.18 Subd. 19. **Net payment.** "Net payment" means the total amount charged for taxable
7.19 property or services, excluding the taxes imposed under this chapter.

7.20 Subd. 20. **Nonprofit organization.** "Nonprofit organization" means any
7.21 corporation, society, association, foundation, or institution organized and operated
7.22 exclusively for charitable, religious, fraternal, civic, or educational purposes and is exempt
7.23 from federal income taxation pursuant to section 501(c) of the Internal Revenue Code.

7.24 Subd. 21. **Person.** "Person" means any natural person, and unless the context
7.25 clearly does not allow it, any corporation, partnership, limited liability company, trust,
7.26 estate, government, agency, administration, organization, association, or other legal
7.27 domestic or foreign entity.

7.28 Subd. 22. **Produce, provide, render, or sell taxable property or services.**
7.29 "Produce, provide, render, or sell taxable property or services" includes the following:

7.30 (1) a taxable property or service is used to produce, provide, render, or sell a taxable
7.31 property or service if the property or service is purchased by a person engaged in a trade
7.32 or business for the purpose of employing or using the taxable property or service in the
7.33 production, provision, rendering, or sale of other taxable property or services in the
7.34 ordinary course of that trade or business;

(2) taxable property or services used in a trade or business for the purpose of research, experimentation, testing, and development is treated as used to produce, provide, render, or sell taxable property or services;

(3) taxable property or services purchased by an insurer on behalf of an insured is treated as used to produce, provide, render, or sell taxable property or services if the premium for the insurance contract giving rise to the insurer's obligation was subject to tax on financial intermediation services under this section; and

(4) education and training are treated as services used to produce, provide, render, or sell taxable property or services.

Subd. 23. **Qualified family.** "Qualified family" means one or more family members sharing a common residence. All family members sharing a common residence are considered part of one qualified family.

Subd. 24. **Taxable employer.** (a) "Taxable employer" includes, but is not limited to, the following:

(1) any household employing domestic servants; and

(2) any government except for government enterprises.

(b) Taxable employer does not include any employer that is:

(1) engaged in a trade or business;

(2) a nonprofit organization; or

(3) a government enterprise.

(c) Taxable employer also does not include the federal government or its agencies, until such time as federal law allows state taxation of the federal government.

Subd. 25. **Taxable property; taxable service.** (a) "Taxable property" means any tangible personal property and all digital products, including but not limited to the following:

(1) property purchased for business use but subsequently converted to personal use, that is subject to the tax imposed by this section at the fair market value of the converted property as of the date of conversion;

(2) leaseholds of any term;

(3) rents with respect to the property;

(4) property exchanged in barter transactions, that must be taxed as if the transaction were made in cash; and

(5) mixed use property, to the extent the property is used for a personal and not a business purpose.

(b) "Taxable service" means any service, including any financial intermediation service, performed by an employee for which the employee is paid wages by a taxable

9.1 employer, or any service performed by an employee for which the employee is paid
 9.2 wages by:

- 9.3 (1) an employer in the regular course of the employer's trade or business;
 9.4 (2) an employer that is a nonprofit organization;
 9.5 (3) an employer that is a government enterprise; or
 9.6 (4) taxable employers to employees directly providing education and training.
 9.7 (c) Taxable property or taxable service does not include any intangible property
 9.8 or used property or property held exclusively for an investment purpose, or any state
 9.9 government functions that do not constitute the final consumption of property or services.

9.10 Subd. 26. **Used property.** "Used property" means property for which the tax under
 9.11 this section has been collected and for which no credit has been allowed, or property that
 9.12 was held other than for a business purpose on December 31, 2013.

9.13 Subd. 27. **Wages.** "Wages" means all compensation paid for employment service
 9.14 including salaries, cash compensation, employee benefits, disability insurance, wage
 9.15 replacement insurance payments, unemployment compensation insurance, workers'
 9.16 compensation insurance, and the fair market value of any other consideration paid by an
 9.17 employer to an employee in consideration for employment services rendered.

9.18 **EFFECTIVE DATE.** This section is effective for sales and purchases made on or
 9.19 after January 1, 2014, provided the constitutional amendment in article 1 passes.

9.20 Sec. 2. Minnesota Statutes 2010, section 297A.62, subdivision 1, is amended to read:

9.21 Subdivision 1. **Generally.** Except as otherwise provided in ~~subdivision 3 or in~~ this
 9.22 chapter, a sales tax ~~of 6.5 percent~~ at the rate calculated under section 8 is imposed on ~~the~~
 9.23 ~~gross receipts from retail sales as defined in section 297A.61, subdivision 4,~~ net payments
 9.24 on the production, provision, rendering, or selling of taxable property or services made in
 9.25 this state or to a destination in this state by a person who is required to have or voluntarily
 9.26 obtains a permit under section 297A.83, subdivision 1.

9.27 **EFFECTIVE DATE.** This section is effective for sales and purchases made on or
 9.28 after January 1, 2014, provided the constitutional amendment in article 1 passes.

9.29 Sec. 3. Minnesota Statutes 2010, section 297A.62, subdivision 1a, is amended to read:

9.30 Subd. 1a. **Constitutionally required sales tax increase.** Except as otherwise
 9.31 provided in ~~subdivision 3 or in~~ this chapter, an additional sales tax ~~of 0.375 percent~~, as
 9.32 required under the Minnesota Constitution, article XI, section 15, is imposed on the ~~gross~~
 9.33 ~~receipts from retail sales as defined in section 297A.61, subdivision 4,~~ the net payments on

the production, provision, rendering, or selling of taxable property or services made in this state or to a destination in this state by a person who is required to have or voluntarily obtains a permit under section 297A.83, subdivision 1. This additional tax expires July 1, 2034.

EFFECTIVE DATE. This section is effective for sales and purchases made on or after January 1, 2014, provided the constitutional amendment in article 1 passes.

Sec. 4. Minnesota Statutes 2010, section 297A.66, subdivision 3, is amended to read:

Subd. 3. **Retailer not maintaining place of business in this state.** (a) To the extent allowed by the United States Constitution and the laws of the United States, a retailer making retail sales from outside this state to a destination within this state and not maintaining a place of business in this state shall collect sales and use taxes and remit them to the commissioner under section 297A.77; ~~if the retailer engages in the regular or systematic soliciting of sales from potential customers in this state by:~~

~~(1) distribution, by mail or otherwise, of catalogs, periodicals, advertising flyers, or other written solicitations of business to customers in this state;~~

~~(2) display of advertisements on billboards or other outdoor advertising in this state;~~

~~(3) advertisements in newspapers published in this state;~~

~~(4) advertisements in trade journals or other periodicals the circulation of which is primarily within this state;~~

~~(5) advertisements in a Minnesota edition of a national or regional publication or a limited regional edition in which this state is included as part of a broader regional or national publication which are not placed in other geographically defined editions of the same issue of the same publication;~~

~~(6) advertisements in regional or national publications in an edition which is not by its contents geographically targeted to Minnesota but which is sold over the counter in Minnesota or by subscription to Minnesota residents;~~

~~(7) advertisements broadcast on a radio or television station located in Minnesota; or~~

~~(8) any other solicitation by telegraphy, telephone, computer database, cable, optic, microwave, or other communication system.~~

~~This paragraph (a) must be construed without regard to the state from which distribution of the materials originated or in which they were prepared.~~

~~(b) The location within or without this state of independent vendors that provide products or services to the retailer in connection with its solicitation of customers within this state, including such products and services as creation of copy, printing, distribution,~~

11.1 ~~and recording, is not considered in determining whether the retailer is required to collect~~
11.2 ~~tax.~~

11.3 ~~(c) A retailer not maintaining a place of business in this state is presumed, subject to~~
11.4 ~~rebuttal, to be engaged in regular solicitation within this state if it engages in any of the~~
11.5 ~~activities in paragraph (a) and:~~

11.6 ~~(1) makes 100 or more retail sales from outside this state to destinations in this state~~
11.7 ~~during a period of 12 consecutive months; or~~

11.8 ~~(2) makes ten or more retail sales totaling more than \$100,000 from outside this state~~
11.9 ~~to destinations in this state during a period of 12 consecutive months.~~

11.10 (b) A retailer that is not subject to paragraph (a) that does not maintain a place of
11.11 business in this state but made taxable sales of at least \$1,000,000 in the previous year
11.12 from outside this state to destinations within this state shall collect sales and use taxes but
11.13 shall be compensated for the administrative costs related to the collection and remittance
11.14 of the sales tax. The commissioner shall develop a method for calculating and paying the
11.15 compensation required under this paragraph. If a retailer subject to this paragraph and the
11.16 commissioner are unable to agree on the method for calculating compensation and the
11.17 retailer demands arbitration, the matter must be submitted to binding arbitration according
11.18 to sections 572B.01 to 572B.31 and the rules of the American Arbitration Association.
11.19 Retailers subject to this paragraph may choose to combine into a single group and jointly
11.20 request that their objections be combined and dealt with in a single arbitration. Within 30
11.21 days after the demand for arbitration, the parties shall each select an arbitrator or agree
11.22 on a single arbitrator. If the parties each select an arbitrator, the two arbitrators shall
11.23 select a third arbitrator within 45 days after the demand for arbitration. Each party shall
11.24 pay the fees and expenses of the selected arbitrator, and the parties shall share equally the
11.25 expenses of the third arbitrator or an arbitrator mutually agreed on by the parties.

11.26 **EFFECTIVE DATE.** This section is effective for sales and purchases made on or
11.27 after January 1, 2014, provided the constitutional amendment in article 1 passes.

11.28 Sec. 5. **[297A.712] EXEMPTIONS.**

11.29 Subdivision 1. **Scope.** The net payments from the sale of and storage, distribution,
11.30 use, or consumption of the taxable property and services in this section are specifically
11.31 exempted from the taxes imposed under this chapter.

11.32 Subd. 2. **Purchased for business purpose.** Taxable property or services purchased
11.33 by a person engaged in a trade or business are exempt if used in that trade or business:

11.34 (1) for resale;

11.35 (2) to produce, provide, render, or sell taxable property or services; or

12.1 (3) in furtherance of other bona fide business purposes.

12.2 Subd. 3. **Purchased for use outside state.** Taxable property or services purchased
12.3 for export from the state of Minnesota for use or consumption outside of the state are
12.4 exempt.

12.5 Subd. 4. **Purchased for investment purpose.** Taxable property purchased
12.6 exclusively for appreciation or the production of income with minor personal effort are
12.7 exempt.

12.8 Subd. 5. **Purchases by government enterprise.** Taxable property and services
12.9 purchased by a government enterprise are exempt.

12.10 Subd. 6. **Higher education costs.** Education and training costs paid to an accredited
12.11 institution of higher education are exempt.

12.12 **EFFECTIVE DATE.** This section is effective for sales and purchases made on or
12.13 after January 1, 2014, provided the constitutional amendment in article 1 passes.

12.14 Sec. 6. **[297A.755] CREDITS AND REFUNDS.**

12.15 Subdivision 1. **Generally.** Each person shall be allowed a credit with respect to the
12.16 taxes imposed under this chapter for each month equal to the sum of:

12.17 (1) the business use conversion credit under subdivision 2;

12.18 (2) the intermediate and export sales credit under subdivision 3;

12.19 (3) the insurance proceeds credit under subdivision 4;

12.20 (4) the bad debt credit under section 297A.81; or

12.21 (5) any amount paid in excess of the amount due.

12.22 Only one credit paid may be taken with respect to the sale or purchase of any
12.23 particular taxable property or service.

12.24 Subd. 2. **Business use conversion credit.** A person is eligible for a credit for the
12.25 fair tax paid on taxable property and services if the property or service is subsequently
12.26 used at least 95 percent for business purposes. The credit is equal to the tax included in the
12.27 gross payment on the taxable property or service.

12.28 Subd. 3. **Intermediate and export sales credit.** A person is eligible for a credit
12.29 for the fair tax paid on the purchase of any taxable property or service purchased for a
12.30 business purpose in a trade or business or exported from the state for use or consumption
12.31 outside of the United States.

12.32 Subd. 4. **Insurance proceeds credit.** (a) Any person receiving a payment from an
12.33 insurer pursuant to an insurance contract, if the insurance premium is subject to the tax
12.34 under this chapter, shall be entitled to a credit in an amount equal to the product of the tax
12.35 rates imposed under section 297A.62 and the amount of the payment made by the insurer,

13.1 adjusted as required in paragraphs (b) and (c). For purposes of this section, "insurance
13.2 contract" includes the following insurance contracts:

- 13.3 (1) life;
- 13.4 (2) health;
- 13.5 (3) property and casualty loss;
- 13.6 (4) general liability;
- 13.7 (5) marine;
- 13.8 (6) fire;
- 13.9 (7) accident;
- 13.10 (8) disability;
- 13.11 (9) long-term care; or
- 13.12 (10) any combination of clauses (1) to (9).

13.13 (b) The credit under paragraph (a) shall be paid by the insurer to the insured, and the
13.14 insurer shall be entitled to the credit in lieu of the insured, except that the insurer may
13.15 elect, in a form prescribed by the commissioner, not to pay the credit and require the
13.16 insured to apply for the credit. In the event of such election, the insurer must provide the
13.17 commissioner and the insured the name and tax identification number of the insurer and of
13.18 the insured and indicate the proper amount of the credit.

13.19 (c) If taxable property or services purchased by an insurer on behalf of the insured
13.20 are purchased free of tax as a purchase for use in a trade or business, then the credit is
13.21 not available for that purchase.

13.22 **EFFECTIVE DATE.** This section is effective for sales and purchases made on or
13.23 after January 1, 2014, provided the constitutional amendment in article 1 passes.

13.24 **Sec. 7. PROHIBITION ON CERTAIN TAXES; IMPOSITION OF FAIR TAX.**

13.25 (a) For taxable years beginning after December 31, 2013, the following taxes are
13.26 repealed:

- 13.27 (1) the individual income and corporate franchise tax under Minnesota Statutes,
13.28 chapter 290;
- 13.29 (2) gross revenue and gross receipt taxes under Minnesota Statutes, chapter 295;
- 13.30 (3) petroleum and fuels taxes under Minnesota Statutes, chapter 296A;
- 13.31 (4) motor vehicle sales taxes under Minnesota Statutes, chapter 297B;
- 13.32 (5) gambling taxes under Minnesota Statutes, chapter 297E;
- 13.33 (6) cigarette and tobacco taxes under Minnesota Statutes, chapter 297F;
- 13.34 (7) solid waste management taxes under Minnesota Statutes, chapter 297H;
- 13.35 (8) insurance taxes under Minnesota Statutes, chapter 297I; and

14.1 (9) occupation taxes under Minnesota Statutes, section 298.01.

14.2 (b) For taxable years beginning after December 31, 2013, all revenues lost as a result
14.3 of the repeal of the taxes under paragraph (a) shall be replaced by the levy and imposition
14.4 of a sales tax upon all final use or consumption of taxable property or services in this
14.5 state. The sales tax under Minnesota Statutes, chapter 297A, shall be renamed the "fair
14.6 tax" and modified to expand the base and increase the rate as required by the constitution.
14.7 The fair tax shall be incorporated into the gross payment and sales price for all taxable
14.8 goods and services.

14.9 **EFFECTIVE DATE.** This section is effective the day after passage of the
14.10 constitutional amendment in article 1.

14.11 Sec. 8. **FAIR TAX LEGISLATION.**

14.12 No later than February 1, 2013, the commissioner of revenue shall submit legislation
14.13 to the chairs and ranking minority members of the legislative committees having
14.14 jurisdiction over taxes in the senate and the house of representatives recommending the
14.15 repeal of any provision of law as necessary to comply with this act; the modification,
14.16 repeal, or enactment of any provision of law relating to sales and use tax under chapter
14.17 297A to comply with this act; and the enactment of any provision of law relating to
14.18 implementing the provisions of this act. The sourcing of sales, the duty to collect and remit
14.19 the tax, penalties, and other administrative provisions related to the fair tax shall follow
14.20 as closely as practical the sourcing, collection, remittance, penalties, and administrative
14.21 provisions of the existing sales tax with the exception that the fair tax must be included in
14.22 the sales price and not stated separately by the retailer. The legislation shall include, at a
14.23 minimum, the following:

14.24 (1) the repeal of any provision of law relating to withholding taxes;

14.25 (2) the repeal of any provision of law related to the repealed taxes under section 7;

14.26 (3) the repeal of the tax exemptions and deductions related to the repealed taxes
14.27 under section 6;

14.28 (4) the fair tax rate necessary to replace the current sales and use tax revenue and the
14.29 revenues lost as a result of the repealed taxes under section 7, paragraph (a);

14.30 (5) any modifications necessary to include the fair tax in the reported sale price
14.31 of all taxable property, including reporting and remittance requirements for the fair tax
14.32 collected by sellers;

14.33 (6) the method for collecting the fair tax;

14.34 (7) record-keeping requirements for all sellers;

(8) the method for providing each qualified taxpayer with a payment to offset the burden of taxation of basic necessities as required by section 9;

(9) any provisions necessary for administering the credits allowed in section 6;

(10) provisions for reporting wages to the Social Security Administration;

(11) the statutory, language, and cross-reference changes necessary to effect the provisions of this act, including the repeal of all sections related to the repeal of the taxes in section 7, paragraph (a);

(12) recommendations for changes in rate or duration for all local sales taxes to reflect the expanded tax base under the fair tax;

(13) recommendations for changes to existing local sales tax laws to allow their administration with the fair tax; and

(14) any other recommendation or provision necessary to effect the provisions of this act.

EFFECTIVE DATE. This section is effective the day after passage of the constitutional amendment in article 1.

Sec. 9. **FAIR TAX RATE.**

The commissioner shall determine a method for setting the fair tax rate for the tax required under this act to replace the anticipated state revenue loss due to the repeal of the taxes in section 7, paragraph (a), and the change from the existing sales tax to the fair tax in section 8. The commissioner shall determine the rate change necessary to comply with the Minnesota Constitution, article XI, section 15.

EFFECTIVE DATE. This section is effective the day after passage of the constitutional amendment in article 1.

Sec. 10. **MONTHLY SALES TAX REBATE.**

The commissioner shall determine a method for providing a monthly sales tax rebate for each qualified family. The sales tax rebate must be distributed to each qualified family on or before the first business day of the month for which the sales tax rebate is being provided. The amount of the sales tax rebate must be determined annually and be equal to the product of the rate of the sales tax established under section 9 and 1/12 of the annual poverty guidelines updated periodically in the Federal Register by the United States Department of Health and Human Services under the authority of United States Code, title 42, section 9902(2), as amended.

16.1 **EFFECTIVE DATE.** This section is effective the day after passage of the
16.2 constitutional amendment in article 1.

16.3 Sec. 11. **REPEALER.**

16.4 Minnesota Statutes 2010, sections 297A.61, subdivisions 2, 4, 10, 12, 13, 16a, 16b,
16.5 16c, 17, 17a, 17b, 18, 30, 31, 32, 33, 34, 36, 37, 38, and 46; 297A.62, subdivision 3;
16.6 297A.63, subdivision 2; 297A.64; 297A.65; 297A.67; 297A.68, subdivisions 1, 2, 3, 5, 6,
16.7 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 19, 20, 22, 23, 24, 25, 28, 29, 30, 31, 32, 33, 34, 35, 36,
16.8 37, 38, 39, 40, and 41; 297A.69; 297A.70, subdivisions 4, 5, 7, 8, 9, 11, 12, 13, 14, 15,
16.9 16, and 17; 297A.71, subdivisions 1, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 17, 18, 20, 22,
16.10 32, 34, 35, 38, 40, 41, and 42; 297A.75, subdivisions 4 and 5; 297A.87, subdivision 3;
16.11 and 297A.89, subdivision 1, are repealed.

16.12 Minnesota Statutes 2011 Supplement, sections 297A.61, subdivision 3; 297A.68,
16.13 subdivisions 4, 42, and 43; 297A.70, subdivisions 1, 2, 3, and 6; 297A.71, subdivision 23;
16.14 297A.75, subdivisions 1, 2, and 3; and 297A.89, subdivision 2, are repealed.

16.15 **EFFECTIVE DATE.** This section is effective for sales and purchases made on or
16.16 after January 1, 2014, provided the constitutional amendment in article 1 passes.